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ABSTRACT

Although education and other quasi-public services are financed by the government in both Holland and Sweden, the public/private division of finance and provision of these services that exists in Holland has no counterpart in Sweden, where provision of services is delegated to local governments and the private nonprofit sector is negligible. Nevertheless, nonprofit organizations play a crucial intermediary role in the Swedish political process. Accordingly, the experience of these two countries is compared in order to analyze the socioeconomic determinants and consequences of the two divergent systems. Part 1 examines data on Sweden in light of three predictive hypotheses specifying the political and cultural conditions conducive to a large nongovernmental nonprofit sector. Part 2 examines the behavior and the problems of private institutions providing educational services in Sweden, both currently and historically. Part 3 compares the behavior of Swedish and Dutch nonprofit organizations. Despite vast differences in the sizes and roles of the private sectors in the two countries, their nonprofit institutions behave in strikingly similar ways. A cross-sectional comparison of these and other countries suggests that the division of responsibilities between governments and nonprofit sectors tends to be complementary rather than competitive in nature. Statistical tables are provided. (TE)

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# The Private Provision of Public Services: A Comparison of Sweden and Holland*

by

Estelle James

PONPO Working Paper-60

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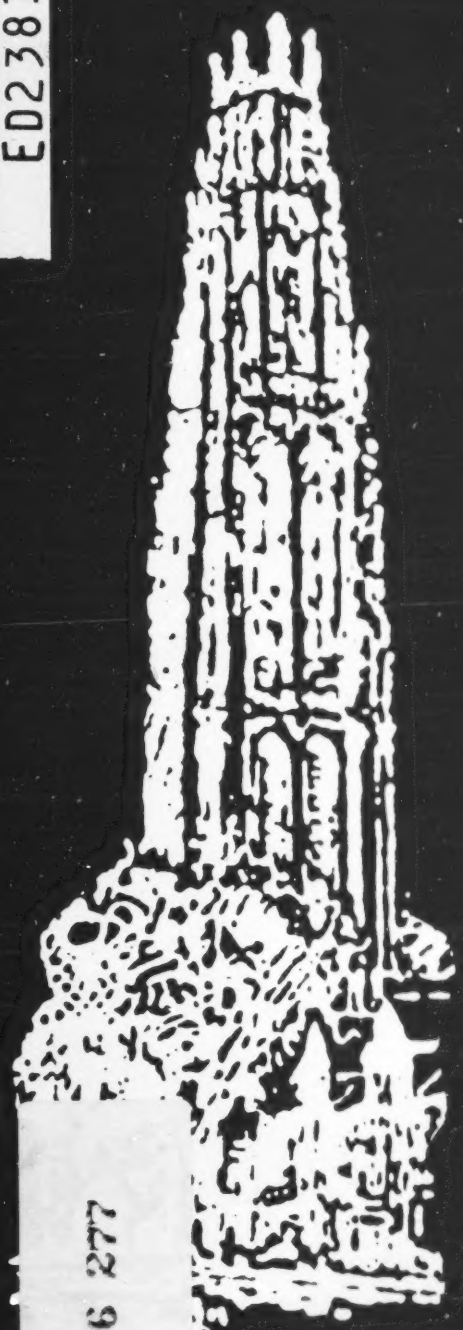

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PROGRAM ON
NON-PROFIT ORGANIZATIONS

Institution for
Social and Policy Studies

Yale University

# The Private Provision of Public Services:

# A Comparison of Sweden and Holland*

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Estelle James

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*Colloquium Paper -- June 16, 1982

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## INTRODUCTION

This paper is part of a broader study which analyzes the determinants and consequences of the public/private division of responsibility for the provision of quasi-public goods.[1] By quasi-public goods we mean those which yield a combination of private and social benefits, and for which economies of scale are limited, such as education, health and cultural activities. The private provision of these goods is often carried out through nonprofit organizations (NPO's), i.e., institutions which are legally prohibited from distributing a monetary residual and must therefore spend all their resources on organizational activities.[2] Therefore, this topic can be redefined as an exploration of the size and nature of the non-governmental nonprofit sector as a provider of quasi-public goods. We utilize a comparative economics perspective, drawing on the diverse experiences of a variety of Western and Third World countries. This paper focuses on the case of Sweden, but also makes some comparisons with other countries studied, especially Holland. It should therefore be read in conjunction with my earlier paper on the private provision of public services, particularly education, in the Netherlands.

Two sets of issues are considered: First, what light does the Swedish experience throw on the pre-conditions for a large nonprofit non-governmental sector? Secondly, what can we learn from Sweden about the behavior of this sector as a producer of quasi-public goods? The object here is to analyze the choice between governmental and private provision, to examine some of the problems that arise and alternative methods of solving them, when the provision of public services is "privatized" -- a topic under much discussion today.

With respect to the first issue: We view nonprofit organizations as "interest-based communities" which contrast with geographically-based communities

in providing quasi-public goods. In this sense, local governments and NPO's are competing institutional arrangements, and the choice between them is seen as depending on the pattern of taste differentiation. Specifically, the degree of cultural heterogeneity and its geographic dispersion, the strength and diversity of organized religion, the distribution of economic and political power, and the tax and transfer policies of central government are hypothesized as important variables influencing this decision about institutional forms.

With respect to the second issue: Ideally, we would like to compare the public and private sectors with regard to variables such as value added, cost effectiveness, relative quality, etc., which would enable us to make a choice between the two. Unfortunately, data is usually not available to do this directly, particularly because consumers are an input into the production process of many quasi-public goods and consumers often differ between the two sectors. We can, however, investigate certain important behavioral characteristics of nonprofit organizations, thereby indirectly throwing light on their desirability as providers of quasi-public services. For example, how do NPO's solve the entry problem and secure their venture capital, in the absence of the profit motive? What are the sources of entrepreneurship and labor? How responsive are they to increases in demand? Are they large and concentrated enough to benefit from economies of scale? What are the implications of privatization for social segmentation, equity and government regulation? We examine this set of questions, particularly, with regard to the provision of educational services.

Briefly, we find that both in Sweden and Holland education and many other quasi-public goods are mainly financed by the government -- a common pattern in most Western countries. Financing and production, however, can be separated, as is Holland, where cultural heterogeneity and politically strong religious groups have led to a system of service delivery dominated by private nonprofit

(mainly religious) organizations. In Sweden, where these conditions are absent, service production has been delegated to local governments; the private nonprofit sector is negligible -- except in carefully specified areas such as culture, sports and adult education where central policy has decreed otherwise. While their productive role is generally small, nongovernmental organizations play a crucial informational, intermediational and representational role in the Swedish political process, so their total influence on public good provision is much greater than their own output would imply.

Part One of this paper sets forth my major hypotheses regarding the determinants of the public/private division of labor and the responsibility of the nonprofit sector for producing quasi-public goods, presents data I have assembled for Sweden, and compares this data with the initial hypotheses. Part Two examines in greater detail the behavior of and problems encountered by private institutions in providing educational services in Sweden, both currently and historically. Part Three compares the behavior of Swedish and Dutch NPO's, drawing on my earlier paper on the privatized system of public services in the Netherlands. Despite the vast differences in the size of the private sectors in these two societies, their nonprofit institutions behave in strikingly similar ways, in many respects -- leading me to believe that these may indeed be "universal" characteristics that we will find in many other countries too.

The Conclusion summarizes the main arguments of the paper and reevaluates whether government and private nonprofit sector should be considered substitutes or complements with respect to the provision of quasi-public goods.

## Part I: Hypotheses and Data on the Swedish Nonprofit Sector

### Hypotheses

I start by setting forth a number of hypotheses specifying the economic, political and cultural conditions conducive to the growth of a large non-governmental nonprofit sector. In each case, the private sector is seen as a response to differentiated tastes about the kind of service preferred, a differentiation which is not accommodated by governmental production.

Suppose we think of peoples' tastes about quasi-public goods as being distributed along a plane, where the variation may refer to characteristics such as quality, religiosity, etc., and each point refers to a different product variant. In addition to differences in their ranking of these product variants (taking into account the benefits and costs to them), people differ in the intensity of their preferences (i.e., how strongly they prefer one variant to another) and their income, which determines how much they are willing to pay for the product of their choice. For example, if government provides a service preferred by the median voter, people with tastes which are very different, strongly felt, and reinforced by sufficiently high income, are more likely to purchase the substitute service of their choice in the private sector. In general, the more dispersed are peoples' preferences with respect to product variety, the greater the intensity of these preferences, and the higher the income of people with preferences which are not accommodated by the government, the larger I would expect the nonprofit sector to grow as a provider of quasi-public goods.

Ideally, government policy about producing and financing such goods should be treated as an endogenous variable, explained by more underlying forces, but unfortunately we do not have a generally accepted theory of the state which would make this possible. Thus, in this study we adopt two approaches: We make some

attempt at offering a joint explanation for the governmental and the nonprofit provision of quasi-public goods; but we also consider the impact of alternative exogenous government decisions about production and financing on the size and nature of the private sector. In the latter case I depict the private sector as responding to a set of exogenous government policies but not vice versa; (i.e., G is fixed and enters into the decision function of NPO's); in this sense, the interaction is one-way, government is the "leader" and NPO's are "followers." My rationale is that in modern societies the government sector as a whole is invariably larger than the nonprofit sector and also enjoys asymmetric powers to tax and regulate. Consequently, the government can make unilateral decisions about its provision of quasi-public goods, compelling both consumption and financing; it can subsidize the private sector if it so desires; while the private sector, which relies on voluntarism, usually does not subsidize the government, and must take competition from alternative sources of supply -- often emanating from the government -- into account.

Hypothesis I: Positive association between cultural heterogeneity and provision through NPO's. A high degree of cultural (e.g., ethnic, linguistic, religious) heterogeneity may lead to heterogeneous preferences with respect to the type of good desired, in areas such as education.[3] Three patterns of provision may then arise, depending on the distribution of political power and cultural diversity:

A. Single group dominance. If a single cultural group dominates politically and wishes to impose its preferences on all others, we would expect to find uniform public provision, and a state policy which discourages NPO's.

B. Pluralism with geographic concentration. If the various groups are geographically concentrated in different parts of the country and one group is

not able or anxious to impose its preferences on others, we would expect to find public provision, by local governments, each catering to a different constituency. The private sector would, again, be small.

C. Pluralism with geographic dispersion. If the heterogeneous groups are geographically mixed and the pluralistic model is adopted we would expect to find considerable provision through private (nonprofit) organizations, supplementing pure governmental production. Cultural diversity, and consequently private provision of services should, for this reason, be greater in cities than in the countryside, ceteris paribus.

The presumption here is an underlying tendency toward uniformity in governmental production -- in order to maximize administrative simplicity and minimize rationing problems. Hence, individuals who prefer a differentiated product must resort to the private sector, and a pluralistic government may be willing to subsidize them, as well. The more uniform the good provided by the government, and the more heterogeneous the tastes, the greater will be peoples' willingness to pay for alternatives and the larger the resulting private sector.

Economic models often assume that local governments will provide quasi-public goods, that people will move to a community offering the kinds of services they prefer, and that people with like preferences will therefore tend to congregate together. The hypothesis presented here assumes that (pecuniary and non-pecuniary) barriers to mobility usually stop this process at a point where considerable heterogeneity still exists, and that NPO's are an alternative institutional mechanism for responding to diverse tastes without incurring movement costs or overcoming other movement barriers.

Hypothesis II: Close connections between organized religion and the non-profit sector. Religion was the basis for collective community action before

secular states developed and I would expect this role to continue, in vestigial form, in the non-governmental nonprofit sector. Religious institutions are well suited to serve as NPO entrepreneurs: providing organizational ability, venture capital and inexpensive labor (e.g., monks and nuns) to NPO's which serve their present and potential constituencies. In addition to this influence on supply, organized religious minorities may stimulate a demand for privatized services (such as education) among their members and may influence government to provide subsidies. This suggests that NPO's will be more important in countries which exhibit less secularization, more religious diversity and in which these religious bodies exist as independent institutions, separate from the state.

Hypothesis III: Relationship between distribution of income and political power and elitism in the private sector. The nature of the service preferred depends upon income as well as taste. Therefore, we would expect a relationship between the distribution of income and political power in society and the size and nature of its private sector.

A. Egalitarian model. In a democratic society with a high degree of income equality, the demand for public services will be correspondingly uniform, hence there will be little demand for a differentiated private sector based on income.

B. Inequality model. At the opposite extreme we have a society with a very unequal distribution of economic and political power, in which the government provides services preferred by the upper classes (i.e., services with a high income elasticity of demand, such as opera, classical theater, and high quality education on a class-biased selective basis). Then, too, the demand and supply of resources for a private sector will be small. (For similar reasons, residen-

tial segregation by class combined with local governmental provision of quasi-public goods would lead to a small private sector based on income differentiation).

C. Disparity between economic and political power. If the upper classes are strong enough to maintain their economic wealth but not strong enough to control the provision of government services, we would expect to find an elitist private sector, providing the services which they prefer and are willing to support. This includes the private provision of certain services before sufficient demand exists for governmental provision, as well as the private provision of a differentiated product for the upper classes, after government is providing the type of product preferred by broader groups in society.

Hypothesis IV: Dependence of the nonprofit sector on the nature of the economic-political system and the degree of government support. Almost by definition, I would expect private organizations to play a smaller role in centrally planned systems and in systems where private enterprise of various sorts is prohibited. Going beyond that, I would anticipate a positive relationship between government subsidies to NPO's via direct grants or tax privileges and relative share of the private sector in producing quasi-public goods. Since some NPO's may exist to satisfy a demand which is not being met by government, but since government subsidies to NPO's further stimulate their growth, it is difficult to predict a priori whether there will be a positive or negative relationship between the size of the government budget and the size of the nonprofit sector.

Predictions about Sweden

What would these hypotheses lead us to expect in the case of Sweden? Sweden is one of the most culturally homogeneous countries in the world. At

least until the "guest worker" immigration of the 1960's, Swedes were united in ethnicity, language and religion.[4] If we posit the private nonprofit sector as an institutional form for accommodating differentiated tastes regarding quasi-public goods, there was no cultural basis for such diversity in Sweden.

Nor has organized religion been a likely nucleus for a thriving private sector. Ninety-five per cent of the population belongs to the Church of Sweden -- an established church closely tied to and financially dependent on the government since the Reformation when the king became simultaneously head of church and state. Until 1860 all Swedes were legally required to belong to the church. Even now, every Swede born to a church member is considered a member unless he explicitly declares otherwise. Membership, however, is largely nominal; only 3% of Church of Sweden members attend services and most consider themselves secular. The church receives almost all its financing from the government. For many years ministers' salaries were paid by the state; in effect, they were civil servants. Since 1961, each parish has been responsible for clerical salaries, but also has the right to levy a church tax (which now averages 1% of taxable income) and is collected as part of the local income tax; even non-members must pay 30% of this tax. When the government proposed, in 1972, eliminating the compulsory nature of this scheme, the church violently disagreed, fearing for its financial health in a voluntary system.[5]

In return for its power to tax, the church has certain civic responsibilities, mainly maintaining population records (births, deaths and marriages) and cemeteries. As will be discussed in Part II, until after World war II public education was administered by the church. The church has also given up much of its autonomy in exchange for its affiliation with the state. Decisions about ecclesiastical law, books for worship, appointments of top clergymen and

even the alcoholic content of communion wine, are made jointly by government and Church Synod. The Church of Sweden is, in effect, part of the Swedish government and as such could hardly become the source of entrepreneurship and demand for a thriving non-governmental sector.

Nor did the upper classes have an incentive to establish a large private sector as their domain since, until World War I, they closely controlled the public sector. Not until 1909-1921 were the high income and property requirements for voting eliminated in Sweden. Even after the Social Democratic Party was elected in 1932, the upper classes retained many of their preferred services. For example, an extremely selective system of public education, favoring children from high socio-economic backgrounds, prevailed until the shift to comprehensive primary schools and integrated secondary schools in the 1960's and 1970's. By the 1970's, when the shift to more uniform government services might have generated a demand for differentiated goods in the private sector among the wealthy elite, their financial ability had been substantially reduced by tax rates which are among the highest in the world. The income differentials that remain are (partially) accommodated by a pattern of residential segregation combined with local governmental provision of many public goods.

Finally, the Swedish government has never adopted a tax and subsidy policy favoring the private provision of quasi-public services. Unlike the Netherlands, Swedish NPO's have not been given government grants to produce public services, except in narrowly specified areas. Unlike the U.S., Swedish tax law does not grant deductions for contributions to NPO's. Most NPO's are not exempt from the property tax, they must pay an income tax on sales of services to non-members and only religious or educational organizations are exempt from the legacy tax. Moreover, they are required to use up 80% of their current revenues (except for

voluntary contributions) within 5 years; i.e., large-scale savings and capital accumulation are discouraged. While this negative attitude toward the private provision of quasi-public goods is consistent with the collectivist egalitarian ideology of the Social Democratic Party, which was in power from 1932-76, a similar policy prevailed before 1932, when the upper classes controlled the public sector and therefore had no need for a nonprofit sector.

Given its cultural homogeneity, its lack of a strong independent church, its history of (combined with its current suspicion toward) elitism, and its delegation of public service provision to local government rather than NPO's, we would expect Sweden to have only a small private sector involved in the provision of quasi-public goods. And this is exactly what we find. Thus, in a sense, this paper is about the absence of something rather than its presence, a negative rather than a positive.

Empirical Data about Swedish NPO's

Table I summarizes the available data on the role of the governmental and private sectors in providing quasi-public goods in Sweden. Two types of institutions are included in the private nonprofit sector: ideel förening (i.e., membership associations with an educational or charitable purpose) and stiftelse (i.e., foundations, often set up to run museums and other cultural activities). For the reasons mentioned earlier, primarily its power of compulsory taxation, the Church of Sweden is considered part of the government, but the Free Churches are considered part of the private sector.[6]

It is difficult to establish with precision the size of the nonprofit sector since no centralized data source exists. Instead, information must be assembled from a variety of sources which use different definitions and are, at best, incomplete.[7] Nevertheless, certain conclusions emerge sharply, and these are consistent with the hypotheses presented above.

First of all, it is clear that the private provision of public goods in Sweden is very small -- income and expenditures totalled 6.8 billion kroner, most of which represented value added in these labor-intensive areas. This was barely 1.6% of GNP and 3.7% of direct government spending.[8]

Secondly, only in the areas where government explicitly wants nonprofit endeavors -- culture, sports and adult education -- do they play an important role. For example, government publications stress the preference for private over state production in the cultural field, to generate the pluralism and diversity of opinion which they view as a "public good" in a democracy.[9] The reliance on private organizations in sports is seen as a means of encouraging voluntary consumption and volunteer labor in a socially desirable activity. The more complex case of adult education will be discussed in Part II.

As in most Western countries outside the U.S., government funding is the major domestic revenue source for NPO's providing quasi-public goods; they flourish if and only if they have access to such funding. The small amount of government subsidies overall is the most immediate explanation for the small size of the Swedish nonprofit sector.

Closely related is the absence of voluntary contributions for most NPO's, producing goods for which there are large governmental expenditures. Some voluntary contributions -- much less than the current level of government expenditures -- were apparently made in these areas, by wealthy people, in the nineteenth century. Those donations which remain now go overwhelmingly to the Free Churches and to missionary work abroad -- activities which are not supported by the government. This data is loosely consistent with a model in which voluntary contributions diminish in response to large increases in governmental spending on public goods, which presumably satisfies peoples' demand.

Fifth, the Swedish case supports the hypothesis that geographically-based communities and NPO "interest-based communities" are competitors for the job of producing quasi-public goods. In Sweden, provision by local government has clearly won out: local governments do more direct spending than the nonprofit sector and central government combined.[10]

Finally, religion plays an important role in the Swedish nonprofit sector -- although not as central as in most other countries. At least one-third of the educational, cultural and recreational organizations do indeed have religious affiliations, many with the Free Churches, even in secular Sweden.

While NPO's play a minor productive role in the Swedish economy, they play a major role as intermediaries betwe the government and the people, representing "interest-based communities" in the political process. Indeed, this representational role is used to justify the subsidies which the government pays to cover the costs of their administrative office and staff, rather than any productive activities. Whereas this type of activity is termed "lobbying" in the United States, and is financed by the private groups who benefit therefrom, in Sweden the flow of information and the degree of consensus thereby achieved is considered a public good which society at large should and does subsidize.

Specifically, central or umbrella organizations of workers, immigrants, handicapped people, youth, pensioners, etc., through their government-subsidized paid staff:

1. Are represented on "committees of inquiry" which make a thorough study of issues before bills are formulated.

2. Are part of the "remiss process" in which proposed bills are circulated to and discussed by all interest groups concerned, and consequently modified, before the final version is enacted.

3. Allocate among their member organizations large lump sums which have been given to them for this purpose by the government; for example, the Sports Federation allocates athletic funding among their various groups, and the Free Church Council has a similar function.

4. Sit on administrative boards, such as the National Board of Education or the various Cultural Councils, which oversee general policy and implement legislation in each area.

5. Audit the books of their subsidiaries to determine if they qualify for state subsidy; for example, the central adult educational associations check the numerous study circles produced by each of their branches, to ascertain whether they meet the stated criteria, and the central youth organization does likewise for numerous youth activities. This reduces the bookkeeping requirements of the government -- by shifting elsewhere the heavy administrative costs of the detailed subsidy system.

6. Moreover, the large organizations are often associated with political parties, their officials run for political office, are elected to Parliament and appointed to high administrative positions -- blurring the line between public and private sectors.

7. Finally, the organizations act to shift the opinions of their members in favor of policies which they have helped to shape and consumption activities which they are helping to administer.

Thus, the private nonprofit sector has a much greater impact on the Swedish economy and society than its direct production activities would indicate. It operates by influencing collective government actions on the one hand, and individual consumption patterns on the other, serving as an intermediary between the two: this is its raison d'être in the Swedish model of a pluralistic democratic welfare state.11

## Part II: Private Nonprofit Behavior in Education

I move on now to examine certain behavioral characteristics of NPO's in those few areas where they serve as producers of quasi-public goods, with particular attention to the field of education: The object is to understand better the possible consequences of privatizing public services, a topic under considerable discussion today. Some of the questions addressed are:

1. How do private nonprofit institutions solve the entry problem? What is the source of entrepreneurship and venture capital in a sector where the profit motive is ruled out? This bears significantly on the ability of the nonprofit sector to increase output, and the speed with which it will do so, in response to increased demand stemming from private and/or public sources.

2. How is labor attracted and compensated in NPO's? Are salaries low because of financing difficulties or do NPO's in fact engage in disguised profit distribution, by paying above-market salaries or other (nonpecuniary) forms of renumeration? If the former case holds, this would seem to limit their ability to attract labor for rapid expansion, when desired. If the latter case holds, this would mean that payments, including any public subsidies, are not all used for the intended purpose, i.e., to meet the real opportunity cost of the service provided.

3. Are voluntary donations of time and labor a viable way of financing private production of public services?

4. If governmental and nonprofit producers coexist in an industry, what is the difference between them? For example, in the field of education, are private schools better and costlier than public schools, or are they less costly because of financial difficulties which force them to economize on input quantity, quality and remuneration?

5. Does the private provision of public services lead to segmentation within society -- along racial, religious and/or class lines? In particular, in a system of privatized education do the wealthy elite pay for and secure a better education for their children, thereby perpetuating their advantaged socio-economic position?

6. If the government subsidizes NPO's, how are the costs and benefits of the subsidy divided among consumers, workers and society at large? Does government subsidy lead to government regulation? If so, does the private sector lose some of its unique characteristics, which made it preferable to government production in the first place? If not, how will accountablity and social control over the use of public funds be maintained?

As we saw in Part I, the Swedish social, economic and political environment is not conducive to a large nonprofit producing sector, and those organizations that do provide services exist only in particularized areas. Therefore, in this section I examine some of the more interesting members of a small set, operating where they are the exception rather than the rule. Three groups of institutions which currently and historically have provided educational services are considered: private secondary schools for girls and their replacement by public schools in the early part of the twentieth century; private schools today, a rare exception to the government monopoly; and the growth of adult education produced by private associations, financed by the government, during the 1960's and 1970's. Part III summarizes some of the lessons we can learn from from these three cases and compares the Swedish and Dutch experience with NPO's.

Private Secondary Schools for Girls and the Historical Shift to a Public System[12]

Secondary school education for boys in Sweden has long been the domain of the government rather than the private sector. As predicted in Part I, cultural homogeneity, interdependence of church and state, and political control by the upper classes, all brought about a system of elite public education supplemented with relatively few private schools, by the nineteenth century. However, preferences about adult education for girls were much more diverse, before World War I. As a result of this diversity, the private sector flourished -- until an emerging consensus replaced it with a public system after 1927. These points are elaborated upon below.

From the time of the Reformation until 1951, responsibility for administering public education in Sweden was delegated to the Church. Sweden's first national educational ordinance was included in the ecclesiastic ordinance of 1571. The same person served as Minister of Education and Ecclesiastical Affairs and the bishops were required to file with him annual reports on their schools. While national policy was made by the Minister and the Riksdag on matters such as school structure, timing and curriculum, regional and local administration were vested in the diocese and the parishes. For example, compulsory school attendance was decreed on a national basis by the primary education code of 1842, but the number of years and weeks in the year required, as well as the day-to-day operation of the classroom depended on local (parish) decisions. Clearly, there was no raison d'être for the church to start its own private educational system, since it controlled the public one.

Nor was there a reason for the upper classes to foster a private educational system for their sons in the nineteenth or early twentieth centuries, since they essentially controlled the state and the church. Hence, they were able to use

the government apparatus as their entrepreneurial tool, the public schools as their own "elite cooperative." As a result, Sweden had the kind of differentiated educational system predicted by our "Inequality Model": high quality selective public schools providing pre-university training for upper class children, together with low cost "folkskolor" providing literacy and other basic skills to working class children. Most of the universities, too, were public, run by the state or municipalities for those few who had completed the gymnasium. As evidence of the narrow selectivity of this system: In 1920 less than 5% of all males 10-19 were attending school beyond the third grade level (see Table II). In the academic secondary schools as well as the universities, students were trained for the learned professions, the clergy and government service. Although the nobility still resorted to private schools, this was an unnecessary expense for most of the (non-aristocratic) elite. Public education was, clearly, the instrument of the church, the state and the upper classes, and this trinity in fact constituted one small mutually self-reinforcing segment of society.

While the upper classes had a common set of interests for their sons, which they achieved through their control of the government and the public schools, their preferences diverged concerning the proper education for their daughters. In particular, the belief that girls needed to be educated beyond the primary level was by no means universal within this group. The solution in the nineteenth and early twentieth centuries was for girls to be excluded from the state secondary schools and educated privately, often by religious groups, for those who wanted it. These private schools were mainly supported by two sources: the tuition fees paid by their consumers and the modest wages paid their staff -- which was predominately female, religious and/or part-time, hence operated

in a different and lower-paid labor market from teachers at the boys' secondary schools.

By the end of the nineteenth century, as more of the upper classes were sending their daughters for some secondary education, pressure developed for a partial state subsidy -- indicative of a public interest which was positive but not large enough to cover the full cost. A state college for training girls' school teachers was established and central standards with inspection instituted. Nevertheless, the primary responsibility remained with the private sector, which was clearly filling in where insufficient consensus existed, even among the dominant upper classes, for public provision.

The ability of the private sector to respond under these circumstances is demonstrated by the fact that in 1910 (when a few state schools opened their doors to women) enrollments at private schools offering a specialized "girls curriculum" (12,359) were almost as high as state school enrollments for boys (15,760) at the lower secondary level (see Table II). This suggests that, at least where capital and labor costs are low and the target consumer group is wealthy, a privatized system and an "elite cooperative" public system will serve the same number of students; the demand elasticity for education seems sufficiently small for that group over the relevant range.

At the upper secondary level the enrollment disparity was much greater -- only 516 women attended private gymnasium in 1910, less than 10% of the men at the state gymnasium (see Table III). Partly, this resulted from the fact that gymnasium education was more standardized and costly than lower secondary education; more capital equipment was needed and fewer low-wage female teachers were available. But mainly, I believe, the lower enrollments of women reflected the remaining ambivalence toward their education.

This attitude was, however, rapidly converging in the early twentieth century. By 1925, female enrollments at the gymnasium level had quadrupled (relative to 1910) and were now 25% of male enrollements. At the lower secondary level, female enrollments actually exceeded male. With a consensus emerging that girls as well as boys should be educated, there was no longer any reason for avoiding the government as the most expedient entrepreneur. In 1927 the Riksdag opened the state upper secondary schools to girls and in 1928 the state decided to finance lower secondary municipal girls' schools as well -- withdrawing its subsidies from private schools, at the same time. In other words, a clear policy choice was made to favor governmental rather than private provision. From this point on we see a rapid decline in the share of the private sector, which could not compete with a public sector that provided a low-price elitist education for girls.

At the lower secondary level the main effect of the new policy was a displacement of private by public schools (see Table II). Indeed, many of the formerly private schools remained intact but were simply municipalized. While most of the private-to-public shift took place in the first ten years, it continued more slowly until after World War II. (This is approximately the same as the 20-year adjustment period for the reverse shift from public to private education, which was going on at the same time in the Netherlands).

During this period female enrollments grew moderately, at about the same rate as for males. This is consistent with the interpretation that enrollment parity between the two groups had been achieved before girls' schools were municipalized, that the price elasticity of demand was low over the relevant range so the shift to a public system for girls did not increase enrollments at the lower second level.

At the upper secondary level the picture looked quite different. Here, the number of females enrolled increased dramatically, and much faster than male enrollments, virtually all of it going to the public sector (see Table III). Specifically, female enrollments in gymnasia rose from 2334 in 1930 to 6347 in 1945 and 22,561 in 1959, almost a 10-fold increase, compared with a 3-fold increase for males over this period, so that by 1959 male-female parity had almost been achieved. The number of students enrolled in private gymnasia also increased, but much more slowly, its relative share dwindling from 28% to 11%.[13]

Was this huge enrollment increase for girls due to the shift to a public system with tax financing, hence a lower price charged to consumers? Would it have been equally accommodated by expansion in the private system, as appeared to have been the case at the lower secondary level? I have noted above that the capital and labor for gymnasia was more costly and difficult to secure privately, and the price elasticity of demand may well have been greater over this range. However, it should also be recalled that the take-over by the state was itself a response to the earlier enrollment increase in the private sector, reflecting a change in taste about female education. Indeed, the relative increase in female enrollments and the growth in the female proportion of total enrollments between 1910 and 1925 was much greater than that between 1930 and 1945 -- although the absolute increase, of course, was larger for the later period. Thus, the actual price effect is indeterminate, impossible to disentangle from the positive taste and income effects which were operating at the same time, but probably accounts for only a modest part of the total enrollment rise.

What, then, was the impact of the shift from a private to a public system of education for girls after 1927? This can be decomposed into the following four elements, for the period 1927-57, during which the highly selective system remained intact:

1. Some (probably modest) enrollment increase due to the lower price in a public system.

2. A transfer payment toward those who would have educated their daughters anyway, away from those who still did not.

3. Higher wages for teachers of girls, who were now paid the same as boys' teachers, often in co-ed schools; part of the higher labor cost was a real opportunity cost of the rapid expansion in female enrollments, part a quality improvement, and part an infra-marginal rent to teachers who otherwise would have worked for lower wages.

4. And, correspondingly, a cost of education which rose faster than enrollments.

While state provision of public services is often associated with the ideology of the Social Democratic Party in Sweden, it is important to note that this system was already firmly in place with respect to education when they took over the government in 1932.

Private Schools Today

The Socialists did, however, have different class interests in mind. Consequently, the Swedish school system has undergone a major democratization over the past two decades, eliminating the elitist character described above. A nine-year compulsory comprehensive school was introduced in 1962, followed by an integrated secondary school in 1971. Specialization still occurs at the secondary level, where 22 different "study lines" are offered; however, students in the vocational as well as the academic tracks are qualified for university admission.

The higher educational system also underwent a major expansion in the 1970's, with new recruitment procedures instituted to attract working class children.

Specifically, employment experience became a substitute for academic qualifications as a criterion for university admissions. As a result of these reforms, 90% of each cohort stays in school until age 18 and one-third go on to higher education.[14] Thus, education, including the secondary and university level, is no larger the preserve of the upper class. How have the private schools fared as these changes have taken place?

On the basis of Part I, one would have predicted an escape by the elite to the private sector at the secondary school level, where they could obtain the differentiated product of their choice in the face of a relatively uniform public system geared toward the middle and working classes. However, this did not occur, mainly because the other pre-conditions necessary for a flourishing private sector were not present. I have already discussed many of these factors in general terms. Here I simply mention those additional points which pertain particularly to the provision of education.

First of all, by the time the educational system was changed the distribution of income in Sweden had also been changed, by a combination of tax and transfer schemes, labor market policies, and general development. By the mid-1960's Sweden was one of the most egalitarian countries in the world; the remaining upper class was small, its disposable monetary income available for spending on private education, limited.[15]

Secondly, some opportunity still exists for differentiation within the public sector. This includes choice of study line, selection of schools offering demanding study lines, and residential segregation combined with local control over schools. Moreover, one must look at the interconnections between the various levels of education, since greater selectivity at higher levels, based on academic criteria, increases the incentive for the upper classes to utilize

elite private schools at lower levels. Viewed from this vantage point, there is little reason for the upper classes to send their children to elite secondary schools, since this will not help them get into the public universities, particularly in view of the new "democratized" criteria for admission.

Perhaps most important, however, was a government policy which discouraged privatized public services, particularly education. Contributions to such institutions are not tax deductible in Sweden, as they are in the U.S., and strong social disapprobrium is attached to their use. Many private schools feel harassed by government inspectors.[16] In 1962 the Riksdag required that for private schools to get official recognition they must offer the same range of facilities as the public ones; schools with a narrow curriculum or selective student body would not be approved. Taken together with the shift toward comprehensive and integrated schools occurring in the public system, this raised the subject variety, minimum effective size and capital requirements in the private sector. As a result of all these factors, the number of private schools and their proportion of total enrollments has declined, rather than rising, over the past two decades.

Currently, less than 1% of all primary school children (appropriately 6000) are enrolled in 35 private schools in Sweden. The comparable figure is 2% at the secondary level, most of them in vocational schools connected to and partially supported by particular trades or enterprises. There are only 19 academic secondary schools.[17] Thus, education is virtually a state monopoly in Sweden, a pattern which, as we have seen and tried to explain, was established much earlier.

What can we learn about nonprofit sector behavior by studying the few remaining private schools? The importance of cultural heterogeneity, religion

and urbanization is underscored by their nature and location: Of the 35 private primary schools, 9 have a religious affiliation, 11 follow a foreign curriculum and teach a foreign language, 10 practice the special Waldorf pedagogy, and 24 are in the two largest cities, Stockholm and Gothenburg.[18]

The demand for private education has been increasing during the past decade, allegedly because of dissatisfaction with the teaching methods and secularization of the public schools. Most of the existing private schools report a large excess demand for student places, which they ration mainly on a first-come, first-serve basis: both price and ability rationing are frowned upon socially and raise the probability of closure by the government. Existing schools have not expanded, partially because of the capital requirements and cost discontinuities implied. Fifteen new schools were started between 1971 and 1979 to meet this increased demand -- almost all of them associated with a religious or Waldorf group which helped provide the organizational ability.

There are three conceivable financial strategies that private schools can utilize to survive:

1. They can charge a high tuition, equivalent, for example, to the average cost of educating a child in the public schools -- 19,600 kroner in 1979;

2. They can keep their costs lower than in the public schools, and charge a correspondingly lower tuition;

3. They can acquire a subsidy from the government or other sources, to help cover costs in lieu of tuition.

To investigate which of these strategies were actually utilized, I interviewed and obtained financial statements from 14 of the 17 private primary schools in Stockholm. I found that option #1 was utilized by only one school -- a school which was used mainly by foreign diplomats and executives who passed

the high cost back to their embassies and trans-national corporations. Apparently, Swedish households are simply not willing to pay high tuition, so this is not a feasible survival technique for a private school.

On the other hand, 11 out of the 14 schools charged less than 5000 kroner per year (barely one-quarter the per capita cost in public schools) and even less for families that could not afford the full tuition. A tuition of 5000 kroner ($700 in 1981) was accessible to most Swedish households, and seemed likely to result in a self-selection according to educational taste rather than economic class.

These 11 schools fell into 2 groups: those which economized heavily on costs and those which received generous subsidies. Lower costs can imply technological efficiency, fewer educational facilities (hence possible quality loss), or reduced renumeration to teachers and other staff. All three of these were given as cost-saving techniques by the Stockholm private schools. Most claimed they cut administrative expenses (e.g., by simplifying procedures and having one person double as instructor and headmaster), had fewer specialized teachers, less equipment and took better care of their books and materials, which could therefore be reused. Volunteer parental labor sometimes replaced expensive hired labor for painting and other tasks. Most important, the Waldorf and religious schools (including all those started within the past decade) typically paid their teachers significantly less than the public system, nonpecuniary rewards apparently being large enough to compensate for this small group.

While the private schools generally perceive themselves to be operating in a hostile environment -- perhaps by contrast with the numerous private organizations in Sweden which receive state subsidies -- it is, nevertheless, true, that they all receive some government support. As nonprofit organizations

they are not required to charge the value-added tax on their product price. As educational institutions, they are exempt from property, income and legacy taxes. Children ride to school in public buses on special student passes. The municipalities usually provide school lunches, textbooks, and often low-rent buildings as well. The liberal Swedish welfare program means that low-paid teachers are eligible for housing, child care allowances and other social benefits -- an indirect subsidy. Again, most important, five Stockholm schools (plus 3 in other cities) receive direct state support to cover most of their teacher salaries; their salaries and other costs are therefore close to public school levels.[19]

In summary, almost all the private primary schools served some (culturally) specialized clientele, charged only a modest tuition fee -- far less than the per capita cost of public schools, passed a significant part of their costs on to the Swedish government and, if not heavily subsidized, economized by paying lower salaries to their teachers.

Schools that receive state subsidies are closely regulated -- with respect to curriculum, total school time and its allocation, teacher salary scales, tuition fees and selection procedures. Recently, the government even claimed the right to assign students to the private vocational schools which it supported; (some of these schools -- and the companies which also supported them -- seemed willing to forego the state subsidy rather than lose their control over admissions and future employment).

However, non-subsidized schools also feel closely regulated and inspected, in order to qualify as "acceptable" during the obligatory school age period. While their curriculum and time allocation may diverge somewhat from that in the public sector, private primary schools must prepare their students for the

public secondary schools they will often attend, private secondary schools must prepare them for the public universities and both must orient their teaching toward the national exams. Moreover, they all feel that high tuition and selectivity are frowned upon in Swedish society, and the perceived threat of government harassment or enforced closure forces them to observe this social norm. Thus, constraints are implicit as well as explicit, informal as well as formal, and extend to nonsubsidized as well as subsidized schools.

Adult Education[20]

The one major exception to the monopoly of state schools occurs in the field of adult education. Adult education is an integral part of the educational-cultural-welfare sector in Sweden, much of it carried out in "study circles" -- small groups that meet weekly to learn informally about a variety of subjects. Study circles are financed largely by the government but produced exclusively by ten private nonprofit associations, the educational arms of the labor unions, churches and political parties. This section explores some of the reasons for and consequences of the use of NPO's in this area. Briefly, because of the complementarity between adult education and the primary interests of their parent organizations, study circles were profitable activities for these associations in both pecuniary and nonpecuniary ways, and for the same reason they were an effective mechanism for the government to use to stimulate supply and voluntary demand. I also show how provision through adult educational associations exhibits certain characteristics common to nonprofit organizations elsewhere: variety and choice, duplication of effort, cross-subsidization among loss-making and profitable activities, and professionalization of staff as government subsidies increased.

To elaborate: In the first half of the twentieth century, before the government became involved, the Swedish "popular movements" were informally educating their members using a familiar Scandinavian technique: study circles with volunteer leaders. The trade unions imparted skills relevant to organizing and bargaining, the churches engaged in Bible study and choir practice, the political parties discussed current events.

State subsidies for study circles were instituted on a small scale in 1947-8. To qualify for these grants, the study circle merely had to have 5 to 20 participants who met 20 hours or more spread over at least 4 weeks to study an agreed subject methodically with material and leader approved by an authorized "adult educational association." The latter point was fundamental: the associations, not the government, determined the content and teacher of the course, and audited their branches to determine whether the minimal requirements mentioned above were met. These criteria and procedures remain today.

The first effect of (and perhaps the first reason for) the subsidy system was to transfer some costs to the government, thereby relieving the organizations financially. As a second effect, study circles grew modestly during the 1950's, reaching a total of about 100,000 circles, 1 million participants by 1963 (see Table IV). The largest subsidy (1/3 of the total) went to the Workers' Educational Association or ABF, the educational arm of the labor unions, the cooperatives and the ruling Social Democratic Party.

In 1963 the government began a major expansion of its adult education program, as an important component of the burgeoning welfare state. At the same time that elementary schools became comprehensive and compulsory for nine years, secondary schools became nonselective and integrated, and plans were laid for a more open university system, an opportunity was also provided for

the less educated older generation to "catch up." Particular efforts were made to attract target groups, such as immigrants, housewives, the handicapped and the elderly and to teach basic job-related skills such as Swedish, English, math and civics. Given the voluntary nature of these courses, and the reluctance of some of these groups to participate, provision through organizations that had other connections with them in their daily lives seemed most likely to induce a large demand. To induce a large supply, a funding scheme was devised which was profitable to the organizations both financially and ideologically. The explosion of adult education which occurred during the 1960's and 1970's suggests that this was, indeed, a successful strategy.

Specifically, the state agreed to pay 75% of teacher and material costs, up to a specified limit per hour, for an unlimited number of hours, plus a bonus for priority subjects and target groups. The municipalities, too, paid varying stipends, including an imputed rental cost for building space owned by the associations and used for study circles. This system meant that, in the aggregate, over the next two decades, approximately 50% of total association costs were paid by central and 25% by local government, leaving only 25% to be covered by course participants and other private sources.

In effect, the government subsidies covered the incremental costs of each course and also enabled the organizations to earn a marginal "profit" that could be applied toward their administrative overhead and buildings, which were used jointly for other unsubsidized activities. For example, the 1979 annual report of the Stockholm branch of the ABF, the largest single organization, showed total study circle revenues of 40 million kroner and direct outlays of 28 million -- a profit rate of over 40% relative to marginal costs.

Furthermore, each circle offered by a union, church or political party could carry its own ideological message -- a form of nonpecuniary profit as well.[21] Typically, each association has its own publishing company and bookstore which could produce and distribute inexpensive public relations literature for the parent organization once its fixed costs were covered by the captive audience of course participants. As a result of these pecuniary and nonpecuniary motivations, the associations vigorously competed for students (using personal contacts, organizational connections and newspaper advertising) and rapidly expanded their study circle hours, with the number quadrupling between 1963 and 1979.

The organizations were successful in attracting participants partially because they provided variety, choice and specializations geared to the interests of their constituents. While many associations produced the same circles in subjects such as art and literature, ABF developed special competence in teaching Swedish for immigrants, English and sccial studies; TBV (the educational association of white collar employees) in vocational training; the Free Churches in religion and pedagogy; the Church of Sweden in liturgical music and services. Typically, a medium-sized town (of 20,000 inhabitants) would have at least 5 associations, each with an office, paid staff and dozens of study circles. The associations would be differentiated by course specialization, ideological emphasis and a self-selection of students and teachers.

A common reason given elsewhere for provision through NPO's is the hope that they will contribute some of the resources, hence the service will cost the government less money than would direct public production. While this may have been a motivating force in Sweden initially, it does not seem to have been an actual effect.

First of all, we have seen that all (marginal) costs were covered by the government and, in some cases, profits were earned to support other non-subsidized activities. Secondly, the decentralization within each organization, the multiplicity of organizations within each town and the need to plan and certify for subsidy numerous small study circles meant that the associations necessarily incurred high administrative expenses. For example, in the Stockholm branch of ABF, 30% of the total wage bill goes to administrators, and the proportions are similar for other associations.[22]

In addition, the 1960's saw the shift from volunteer leaders to a paid professional staff. In the early years of study circle activity volunteers were heavily used as leaders, giving the organizations an apparent cost advantage. To expand their offerings rapidly, however, they hired part-time and eventually full-time leaders, for whom the governmental ceiling on reimbursed wages quickly became a floor. The need to use paid professionals was crucial for language courses such as English and Swedish for immigrants, but it became customary in other areas as well. The associations had little economic rationale or market ability to resist this development. In effect, the government subsidy set a lower bound on the demand for (marginal productivity of) labor in study circles, and employment expanded until the supply price reached this level. Thus, the number of study circles grew quickly but total costs and central government subsidies grew faster still.

Aggregate data on revenue and costs unfortunately is not available. However, annual reports for the Stockholm ABF show that, between 1963 and 1979, the number of their study circle hours rose 3-fold, total income and expenditures rose 16-fold, administrative salaries rose 18-fold, state subsidies rose 33-fold, and total teacher salaries rose 36-fold! While at the margin of output

and quality the higher wages may have been a necessary accompaniment of a rapid expansion rate, an infra-marginal rent was probably received by many workers who would have led study circles for much lower pay. The Swedish experience with adult education is consistent with other observations in this study that, as government financing replaces private financing of a quasi-public good, consumers benefit from lower prices and higher output but producers also benefit, from higher earnings.

An addendum: In the 1980's, the Swedish government is trying to cut back on its welfare expenditures, encourage greater administrative efficiency, reduced teacher salaries and a return to volunteerism. A new incentive scheme, implemented in 1981, gives the associations a flat fee per hour, for a limited number of hours, regardless of costs incurred.[23] Therefore, the central office of each association must allocate its quota of hours among the various branches and subjects; they also face pressures to cut costs by merger and use of volunteers. Many association managers believe that centralization and mergers will in fact take place. However, the full-time study circles teachers, now unionized, constitute a newly created group with common interests and powers to defend them; they are still demanding pay increases and resisting replacement by cheaper personnel. Therefore, the process seems (at least partially) irreversible, a return to volunteerism highly unlikely, once a sector has become subsidized and professionalized.

## Part III: Swedish-Dutch Comparison

What can we learn, from these three case studies, about the behavior of the private sector when it is used to provide quasi-public services? I return now to the questions raised at the beginning of Part II and, in answering them, compare Swedish with Dutch NPO's, drawing on my earlier paper for the latter. To facilitate comparison, data on size, revenue sources and activities of Dutch NPO's are presented in Table V.

Both Holland and Sweden are modern welfare states, at roughly the same stage of development, with similar per capita incomes and size of the government budget relative to GNP (approximately 2/3, in each case). However, their mode of delivering services is totally different. The extreme cultural heterogeneity, in the form of religious cleavages, which characterized Dutch society at the turn of the century, led to a highly privatized system, in which the nonprofit sector produces most of the country's quasi-public goods -- albeit financed almost exclusively by the government. NPO's produce approximately 15% of Dutch GNP and, in areas such as education, health, culture and social services, their output is greater than that of the central and local governments combined.

In both countries, the private sector did indeed respond positively to increased demand, suggesting it is a viable mechanism for providing services under certain circumstances.[24] We observed this in Sweden in the case of secondary education for girls and adult education; in Holland when public subsidies became available to private schools in 1917 and social services after World War II. In both cases, most of the entrepreneurship came from institutions that already existed for some other more basic purpose, rather than from individuals or spontaneous groups. It is interesting to note that, even in a secularized country such as Sweden, organized religion still plays an important entrepreneurial role in its nonprofit sector -- albeit not as important as in Holland. The role of Swedish labor unions in sponsoring NPO's is less universal and suggests that the source of entrepreneurship may vary among countries depending on its most important long-term economic and cultural institutions. In any event, it appears that service provision through NPO's may not be viable in societies which do not have strong long-term independent religious, cultural and economically based organizations.

As for the source of venture capital to NPO's, this is indeed a problem in the absence of a profit motive or return, which probably helps explain why private organizations have functioned best in labor-intensive areas where capital requirements are low. In Sweden the government is the main source of capital to NPO's and this is usually provided in kind rather than in money, with ownership remaining in the public domain. For example, many private schools occupy buildings made available to them at low rentals by their municipalities. In Holland, where NPO's are stronger, the government goes further still, constructing buildings for and turning ownership over to each private school. Both in Sweden and Holland, sports facilities are constructed and maintained by local governments, but used by nonprofit sports organizations.[25] NPO's are thus heavily dependent on government's willingness to make such capital facilities available. In some cases, regulation or even nationalization has been the price exacted for much-needed capital expansion (e.g., this led to the state takeover of the municipal and private colleges in Stockholm and Gothenburg after World War II).[26]

In other countries, capital for the nonprofit sector has come from wealthy institutions, such as the church in Latin America, or from wealthy individuals who have funded buildings or established foundations which then provide venture capital for operating NPO's, as in the U.S. In Sweden, we have seen that organized religion has a limited accumulation of assets, and the class of wealthy individuals is likewise small. Moreover, large private donations are actually discouraged. Such donations usually imply a trade-off of pecuniary wealth for status and control over resource utilization, the latter also frowned upon by the Swedish Social Democratic ethos.[27] It appears, then, that a society must be willing to tolerate large concentrations of money as well as

non-monetary prestige and power, in order to have the potential of private capital for its nonprofit sector. Otherwise, the nonprofit sector must rely on public capital, which makes it more dependent on government policy, less able to make autonomous production decisions.

The NPO's providing quasi-public goods in Holland and Sweden are also limited (by legal or market forces) in their capacity to charge high prices. Therefore, those without large government subsidies tend to produce at low cost with little opportunity for disguised profit distribution. In particular, low-paid or volunteer labor is often used. For example, low wages were paid to teachers at girls' schools prior to 1927, at private schools today, and volunteer leaders were used in the early years of study circles. Workers will remain at such jobs only if broader markets are closed to them (e.g., female teachers at the turn of the century), if there are large non-pecuniary rewards (as in sports) or if they are, in fact, doing this as part of their job for some other organization (e.g., a trade union or church).[28] Since the availability of workers in these categories may be limited, the ability of NPO's to expand may also be limited, in the absence of government subsidy.

When government subsidies are instituted, the marginal productivity of labor rises, market wages can be paid (indeed, this is often required as a condition of the subsidy) and rapid expansion is facilitated. We observed this process taking place in the field of adult education in Sweden, primary/secondary education and social services in Holland. However, the infra-marginal workers gain a rent -- the subsidy constitutes, in part, a redistribution of income to them. Thus, both consumer and producer interests are involved in government subsidies to NPO's. Whereas the economic efficiency arguments are

usually couched in terms of the former, the latter is at least equally important in the political process which creates and maintains these subsidies.

As a result of the higher wages and factor inputs, NPO costs may start from a low base but rise much faster than output when subsidies are instituted. This happened dramatically in adult education; it is also consistent with the large cost differential between subsidized and nonsubsidized primary schools today. Whether quality rises as a function of these subsidies and costs is, of course, a key question which, unfortunately, I am unable to answer.

Adding to the cost problem is the possibility of excess entry, with each production unit too small to benefit fully from economies of scale, as seemed to happen in Dutch primary schools and Swedish study circles. The government can minimize this problem by an appropriately designed subsidy-incentive system that encourages fewer and larger units — but, as discussed in my paper on Holland, NPO managerial objective functions may lead to results that do not lie along the cost-quality frontier.

The Swedish case suggests that direct government regulation may but need not accompany government subsidy. Thus, subsidized private schools do face (varying) controls over their curriculum, salaries, tuition fees, and student selection procedures, but unsubsidized schools also feel regulated, both implicitly and explicitly. In addition, the existence of national exams and the dominance of public secondary schools and universities constrain the actions of schools at lower levels, whether subsidized or not.

On the other hand, few regulations or other controls accompany the subsidies to adult education; only a minimum number of participants and meetings are needed for support. While the government does not regulate, this area has probably been the most influenced by the incentives embodied in the subsidy

system. For example, several adult educational associations came into existence as a response to the initial subsidies and may merge in response to the latest changes. Types of courses offered, target audiences and input mix have all been affected by the nature of the subsidies. Such incentive effects cannot be avoided in any scheme of government subsidies to NPO's; their behavior will depend on the design of the scheme. The appropriate question, then, is: What is the best combination of incentives and rules, to achieve the desired social objectives with the public funds?

One of the most interesting regulations found in some Swedish subsidy schemes concerns the decision-making process. For example, youth and immigrant organizations are required to be "democratic," "representative," and "participatory" in order to qualify for subsidy. Similarly, in Holland, workers and, to a lesser extent, consumers have a mandated role in the decision-making process of private schools and social service organizations. In NPO's, where profits are not the pre-determined goal, choices about output and technology depend on the preferences of the decision-makers. Consequently, changing their identity can change the way the organization behaves, one way of maintaining social control yet permitting decentralization at the same time.

An important issue which always arises when the privatization of education or other services is discussed, concerns the degree to which this would lead to a social segmentation of society, in particular, a segmentation along class lines. It is true that any system which permits choice (including choice among various government institutions such as public schools), will cause people with like tastes to be grouped together. For example, students and teachers self-select themselves among the various adult educational associations in Sweden, depending on their political and religious ideologies. The extensive reliance

on private schools in Holland has reinforced the religious segmentation within that society.

If all groups prefer such segmentation, it is Pareto-efficient; but a social dilemma exists if one group prefers segmentation while another group prefers integration. Then, a system which ostensibly gives consumers a choice cannot in fact satisfy both groups simultaneously: either the schools are permitted to exclude, in which case the separationists win but the integrationists are precluded from mixing with them; or the schools are not permitted to exclude, in which case the opposite occurs. In other words, both groups cannot really exercise free choice at the same time, if their preferences are mutually incompatible, and society must make a collective decision about which system it prefers, which group to favor. A pro-integrationist decision can then either take the form of eliminating choice (e.g., by giving the state a monopoly) or of permitting choice with strings attached (e.g., reliance on a regulated private sector, with limited rights to exclude).

The social segmentation which results from choice among private producers of public services need not, however, correspond to economic class segmentation. For example, when boys were educated in public secondary schools and girls in private schools at the turn of the century in Sweden, both came from a very narrow stratum of society; from the vantage point of economic class, they had more in common with each other than with the vast majority who got no secondary education at all. The few private schools which exist today in Sweden tend to charge relatively low tuition that would not automatically stratify along class lines. This is partly because of governmental regulation against high tuition (in the case of subsidized schools) and partly because of social pressure and market competition. The private sector has not become an elite sector, also,

because other opportunities for product differentiation exist for the upper classes within the public sector, and because the higher educational system does not reward elitism in secondary schools. Some of these conditions could easily be replicated elsewhere, if desired, while some are broader societal factors that are not readily transferable.

We found exactly the same situation, for very similar reasons, in the Netherlands, where private schools have captured 70% rather than 1% of the primary and secondary school enrollments. It is indeed significant that in these two countries, which are at extreme poles from each other in their public/private division of responsibility for producing education and other quasi-public goods, the actual operation of their private sectors exhibit striking similarities, in several of the dimensions examined.

## IV Conclusion

In summary, we have found that the non-governmental nonprofit sector plays only a small role in Sweden as a producer of quasi-public services, i.e., services which provide private as well as social benefits. The Swedish outcome is consistent with my initial hypotheses about factors which determine the public/private division of labor. In particular, the cultural homogeneity within Sweden, the absence of a strong independent church, and the upper class political dominance until after World War I would lead us to expect a large public, small private sector in producing such goods, and this is an accurate description of the situation. In Holland, where the opposite conditions prevail, the public/private division of production responsibilities is reversed.

Playing a key explanatory role in both cases is governmental policy toward and, particularly, subsidies for NPO's -- which in turn can be partially explained by the variables mentioned above. In Sweden, Holland, and most other

Western countries, NPO's have flourished if and only if they are subsidized by government. Even in the U.S., where the NPO sector is probably most private, approximately 35% of the revenues of philanthropic organizations come from government.[29] Swedish government subsidies to NPO's as service providers are largely limited to the areas of culture, sports and adult education, and these are the only sectors where they play a significant productive role.

The fact that government policy is not fully explained by the other variables discussed above, nor does it fully explain the size of the nonprofit sector, is indicated by the experience of Denmark, another homogeneous country. The Danish government liberally supports private schools, making available low-interest loans to cover their construction costs and paying 85% of their recurrent costs as well -- a policy which is almost as generous as that in Holland. Yet, only 10% of Danish children attend private schools, most of them associated with religious, political (socialist) or Waldorf groups.[30] Apparently, the cultural homogeneity in Denmark is so great, the supply of entrepreneurship and demand for differentiated education generated by organized religion so small, that the overwhelming majority use the public schools, despite the willingness of government to support privatization.[31]

While NPO's carry on few production activities in Scandinavia generally, they do play an important role in the political process. There, they are key instruments in the two-way flow of information between government and individuals which is considered a public good, worthy of subsidy. This is compatible with my view that NPO's should be considered "interest-based communities" which compete with the usual geographically-based communities for various social tasks. In the Swedish case geographical communities have clearly won out in

the production sphere, but both geography and interests are used as a legitimate basis for representation in the political sphere.

Thus, we have identified three important functions of NPO's: representation, production, and fund-raising. While most NPO's engage in some combination of all three, the Swedish sector has a relative concentration on the first, the Dutch sector on the second, and the U.S. sector on the third.

The production and fundraising roles of NPO's in the United States have led many people to think of them primarily as substitutes for governmental activity.[32] However, the fact that government is, almost universally, a major source of finance for NPO's, and NPO's are a major interest or pressure group influencing government actions, implies that a complementary relationship may dominate. Which of these alternatives is a more accurate description of reality?

The experience of Holland and Sweden suggests that: 1. If we are examining the relationship between the nonprofit sector and the size of government budgets in a particular country and area of activity (e.g., education in Holland, culture in Sweden), the two will move together in a complementary fashion, once a policy decision has been made about the division of responsibility between public and private sectors. That is, once a certain share of the production responsibility has been assigned to NPO's, such as adult education in Sweden, they will expand or contract as availability of government financing rises or falls; complementarity prevails.

2. If we are examining the relationship between the nonprofit sector and the size of the government budget over-all, within a given country, this depends on which areas of activity are expanding and contracting. For example, when the Dutch allocation to education and social services increased in the 1960's, this exerted a positive influence on the size of their nonprofit sector. If all

areas of activity are growing at roughly the same rate, the nonprofit share will also grow at that rate, as in Sweden over the past decade. Again, complementarity prevails.

3. If we are making cross-sectional comparisons across countries with different policies, or if we are examining variations through time within a given country, during a period when policy toward NPO's is changing, then total spending and direct production by government must be considered as separate variables. For example, when governmental subsidies to private girls secondary schools were replaced by direct government production in Sweden after 1927, the nonprofit sector fell as government spending rose, while in Holland the opposite was taking place. The sharply contrasting private sectors in Holland and Sweden, which today have approximately the same governmental budgets (relative to population and GNP), very different levels of government production, suggests that the size of the nonprofit sector as a provider of quasi-public goods may be inversely related to the latter and, on balance, independent of the former, in international comparisons. Whether this holds for larger and more diverse groups of countries will be considered by a later paper in this study.

Footnotes

*This paper was written while the author was a Fellow at the Woodrow Wilson International Center for Scholars, Washington, D.C., and Professor of Economics, S.U.N.Y., Stony Brook. It is based on published material as well as statistical data collected and interviews held with numerous scholars, government officials, private school headmasters, managers of adult education associations and other organizations, during a recent visit to Sweden. I wish to thank all of these people, who were so generous with their time, in addition to the staff members at the Swedish Institute who arranged the interviews. My research assistant, James Sinclair, was very helpful in assembling the tables and performing related calculations. I also appreciate the financial assistance from the Social Science Research Council for this trip and the facilities provided by Arbetslivscentrum during my stay in Stockholm. Support has been received from the Exxon Education Foundation, the National Endowment for the Humanities, the Program on Nonprofit Organizations at Yale University and the Research Foundation, S.U.N.Y., on broader aspects of this project.

1. Other papers in this study include E. James, "The Non-Profit Sector in International Perspective: The Case of Sri Lanka," Journal of Comparative Economics, June 1982; "Pre-Conditions, Benefits and Costs of Privatized Public Services: Lessons from the Dutch Educational System," PONPO Working Paper No. 47, ISPS, Yale University, 1982; and "Cross-Subsidization by Non-Profit Organizations," PONPO Working Paper No. 30, ISPS, Yale University, 1982.

2. Some of the reasons why NPO's predominate over profit-maximizing organizations (PMO's) in the provision of quasi-public goods are discussed in E. James, Ibid. Briefly, the latter can operate efficiently where private benefits predominate, exclusion and price rationing can be practiced; the

former have a comparative advantage where social (external) benefits play an important role, exclusion is impossible or costly, and voluntary donations are a potential source of funds. This paper concentrates on the division between the government and the private nonprofit sector, rather than the division between the private NPO and PMO sectors.

3. The importance of heterogeneous preferences as a determinant of the size of the nonprofit sector is also stressed by Burton Weisbrod, The Voluntary Nonprofit Sector (Lexington, Mass.: Lexington Books, 1977), 179 pp. However, Weisbrod stressed heterogeneity with respect to the quantity of public goods produced, whereas I stress the importance of diverse tastes about the types of goods, where product variety can be more easily accommodated through the nonprofit sector.

4. For example, in two indices of ethnic and linguistic fractionalization presented in Charles Taylor and Michael Hudson, World Handbook of Political and Social Indicators, 2nd edition, pp. 271-274, Sweden ranked 73 out of 111 and 107 out of 136, respectively.

5. For basic data, see Fact Sheet on Religion in Sweden, published by the Swedish Institute, Stockholm.

6. An important type of nonprofit membership association, labor unions, are excluded from this Table, which focuses on the providers of public services. However, certain affiliates of the trade unions, such as adult educational associations, are included.

7. Data is most readily available on central government subsidies to NPO's -- their major source of finance. The main problem here is that definitions used in different government publications are not always consistent. For example, the category of "official institutions" in Statistiska meddelanden,

assembled by the National Audit Bureau, includes most but not all organizations that are listed as ideel förening or stiftelse in Kulturstatistik, published by the State Cultural Council and the Central Bureau of Statistics. The former also includes a few organizations that are labelled by the latter as "actiebolag" or (partially) state-owned joint stock companies, which may not operate subject to a zero-profit constraint. In this case, however, I used the Audit Department's definitions, since this was the only complete set of data for central government expenditures and transfers. Likewise, data on local government expenditures on culture given in Kommunernas finansier 1979, Central Bureau of Statistics, and Kulturstastik did not always agree. Here, I used the former, which was the most comprehensive source for local government spending. Comprehensive data on local government subsidies to NPO's and private revenues (e.g., contributions, sales, interest and rental income) was not available. Instead, I used various sources and methods for estimating these amounts, including government publications and annual reports of large organizations, as indicated in the footnotes to Table I. Most of the numbers given, therefore, are not exact. In view of the magnitudes involved, however, the main conclusions reached in the text are not affected by these data problems.

8. Swedish GNP in 1979 was 422 billion kroner and direct spending by central and local governments totalled about 220 billion kroner.

9. See, for example, Nils Nilsson, Swedish Cultural Polic, in the 20th Century, Swedish Institute, Stockholm, 1980; and Cultural Policy in Sweden--An Introduction, Swedish National Council for Cultural Affairs, Stockholm, 1979. The nonprofit sector would be even larger here if I included state enterprises whose stock is held (mainly) by government (such as radio or TV) and several private companies that are de facto NPO's (such as daily newspapers). These are legally permitted to earn and distribute profits, but in fact make losses

which are covered by government subsidies. These subsidies would probably be withdrawn if the newspapers ever actually became profitable. Therefore, de facto, they are operating subject to a zero-profit constraint. Thus, the media, in particular, are characterized by a variety of institutional forms which fit somewhere between the pure governmental and pure private sectors -- a characteristic of the Swedish system.

10. However, the decision-making power of local governments should not be overestimated. Although they have their own taxing authority, they are also heavily dependent on transfers from the central government -- and these transfers often come with tight strings attached. For example, approximately half of local expenditures on education are paid centrally; in return, the municipalities must accept the headmasters and teachers assigned to them by central authorities, salaries are determined by national negotiations between the teachers' union and the municipal association, curricula is planned, in-service training conducted and local schools inspected by a central administration that occupies several square blocks in Stockholm.

11. For further discussion of this role see, for example, Gunnar Heckscher, "Interest Groups in Sweden: Their Political Role," in Henry W. Ehrmann, ed., Interest Groups on Four Continents (Pittsburgh: University of Pittsburgh Press, 1958), pp. 155-73.

12. For the data on which this section is based, see Elever I Icke-Obligatoriska Skolor, 1864-1970 (Pupils in Secondary Schools in Sweden, 1864-1970), Central Bureau of Statistics, Stockholm, 1977.

13. Probably those attending private gymnasia in the post-1925 period came from relatively more upper-class backgrounds than those in public gymnasia. This is indicated by the fact that the private/public ratio of those in the Classics line exceeded the private/public ratio in the Natural Science line,

which taught more practical job-related skills. Also, the private proportion of "passes" in the higher certificate exam exceeded the private proportion of enrollments by about 20%-25% each year after 1925. See Elever I Icke-Obligatoriska Skolor, op. cit., pp. 153-157 and Table III of this paper.

14. For a summary of these facts and other basic information about the modern educational system in Sweden, see the following: Sixten Marklund, Educational Administration and Educational Development, Institute of International Education, University of Stockholm, Nov. 1979; Sixten Marklund and Gunnar Bergendal, Trends in Swedish Educational Policy, The Swedish Institute, Stockholm, 1979. Although I argued above that the demand elasticity for education was small for the relevant (high income) group that had access to secondary education in the 1930's and 1940's, it may not be small for the (middle and low) income groups now receiving such education. Thus, while the shift from a private to a public system (for girls) did not seem responsible for enrollment increases in the earlier period, it may have been a necessary condition for the enrollment increases which took place in the 1960's and 1970's.

15. For example, according to data on sectoral income distribution reported in Charles Taylor and Michael Hudson, World Handbook of Political and Social Indicators, 2nd ed., 1972, pp. 263-65, Sweden had a Gini Index of 5.6 and 46.5% was the smallest percentage of the population with half the national income, ranking second out of 52 countries in degree of equality, using these measures. (The U.S. ranked eighth, with numbers of 12.2 and 42%, respectively). In addition to this direct effect, income redistribution has had an indirect effect on the demand for private education: To avoid taxes, much of upper class income takes the form of various fringe benefits and non-pecuniary perks, rather than monetary income which could be freely spent on the most desired good. Both these factors served to limit the effective

demand for elite privatized education.

16. The above comments were made to me in numerous comments by parents and private school staff.

17. For a summary of the current situation regarding private primary and secondary schools, see Eugene Ekvall, De Enskilda Skolornas Ställning Inom Utbildningsväsendet, Swedish Government (Education Dept.) Report Ds U 1978:6; and Fristående Skolor För Skolpliktiga Elever, Swedish Government (Educational Dept.) Report SOU 1981:34. These are important government reports dealing with the position of private schools in Sweden. Also see Marklund, op. cit.

18. For a list of the 35 schools, their location, affiliation and year of origin, see Fristående... op. cit., p. 23.

19. The issue of state subsidies to private schools is now being hotly debated and a gradual three-fold increase (to 15 schools) has been proposed. See Fristaende...op. cit. The subsidies would be provided to schools which provided some educational alternative (pedagogical, linguistic) not offered by the public system, once they had been in existence on their own long enough to prove their value. The controversy stirred up by this modest proposal is itself indicative of the suspicious way private schools are regarded in Swedish society.

In addition to Swedish government support, lesser amounts were also received from foreign governments, by the schools teaching their curriculum and language (e.g., the German, French, British and American schools).

20. This section is based upon Folkbildningsarbetet: Special Issue on Study Associations, June-July 1976; Fact Sheet on Adult Education, Swedish Institute, Stockholm, as well as annual reports of several adult educational associations, interviews with their leaders and meetings with government officials dealing with adult education.

21. For example, ABF admittedly makes "a conscious effort to let the ideal of equality, solidarity and democracy put its stamp on education," the Swedish Church Association works "on the basis of a Christian concept...of life and Christian values," Medborgarskolan (which is associated with the Conservative Party) emphasizes "quality...and the right of the individual to choose." See Folkbildningsarbetet, op. cit., pp. 11, 26, 31.

22. Based on the 1979 annual report of ABF as well as the reports of other associations.

23. The new incentive scheme, proposed by a government which was led by a coalition of center-rightist parties, also reduced the bonuses paid for target groups and courses such as Swedish for immigrants. This move particularly hurts the ABF, the association most involved with these courses and groups. In the future, ABF will either have to pay some of the (overhead) costs of these courses, or leave the teaching responsibility to the municipalities, thereby losing an opportunity to influence the immigrants politically and ideologically. At the time this is being written, their choice between these two alternatives was not clear. This incident suggests, however, that for public services to be provided through NPO's with generous government subsidies, the NPO's must be viewed by the ruling group as potential political allies, not adversaries.

24. This finding is also consistent with data from other countries. For example, West discussed the growth of private education in nineteenth-century England. See E. G. West, Education and the State (London: The Institute of Economic Affairs), 2nd ed., 1970. Pryor concludes that the elasticity of substitution of private for public expenditures in education is approximately unity -- since centrally planned economies with a larger share of public financing

and market economies with a larger share of private financing tend to spend the same total amounts on education, ceteris paribus. See Frederic Pryor, Public Expenditures in Communist and Capitalist Nations (Homewood, Ill.: Richard D. Irwin), 1968, p. 204.

25. The imputed value of facilities made available by local governments to sports and youth organizations in 1979 was 2 billion kroner. See Fritidspolitik and Samhällsstod, National Youth Board, Stockholm, 1981, p. 76. In return, the local organizations paid local governments a portion (usually about 30%) of all admission fees. This, however, was considerably less than the real cost of such facilities, especially since the admissions fees were deliberately kept low to encourage participation.

26. See Roger Geiger, "Sweden: The Stockholm School of Economics," Yale University, 1980, mimeo.

27. See, for example, "Private Charity Going Out of Style in West Europe's Welfare States," New York Times, June 30, 1978, p. 1, which describes how a proposed donation of a million kroners from King Gustaf Adolf to a national association for the handicapped was refused by the intended recipients, on grounds that this was appropriately a governmental responsibility.

28. In labor-surplus countries, low-paid or volunteer employment with NPO's may also be a socially acceptable way of circumventing a minimum wage constraint which is above the market-clearing level. See my paper on NPO's in Sri Lanka.

29. See Gabriel Rudney, "A Quantitative Profile of the Nonprofit Sector," PONPO Working Paper No. 40, ISPS, Yale University, 1981, pp. 5-10. The 35% figure was compiled from Census data and includes 7% of indirect subsidy via taxes foregone for charitable contributions. If we exclude religious institutions the proportion of nonprofit philanthropic revenues coming from the government

(including income taxes foregone) is 40%. By "philanthropic" is meant organizations that produce quasi-public goods and therefore qualify for tax-deductible contributions. A similar calculation based on IRS data for NPO's providing educational, cultural, health, and religious services concluded that 25% of their support comes from the government. This figure would be 32% if taxes foregone for contributions were included. See Bruce Smith and Nelson Rosenbaum, "The Fiscal Capacity of the Voluntary Sector," Brookings Institution, 1981, mimeo., p. 20.

30. See Ekvall, op. cit., pp. 7-9, and Fristående... op. cit. pp. 29-32.

31. It may be useful to digress briefly and gain a broader perspective by contrasting the Western model presented here with that operating in developing countries, such as Sri Lanka, where NPO's are supported primarily by foreign donor organizations; in this sense the nonprofit institutional form may be a Western export. While at first glance this case looks different from the one discussed in this paper, there are important underlying similarities. Most important, both cases are consistent with the basic idea that NPO's should be viewed as "communities of interest" which, in the non-Western case, cut across national borders -- one reason for action through non-governmental rather than governmental organizations. Many of the donor organizations have religious (or other ideological) affiliations, they often represent minority religious in the recipient country, and they get much (but not all) of their funding from foreign governments. The indigenous organizations which are able to obtain support from these international NPO's are the ones that have flourished; their entrepreneurs are usually English-speaking and Western-educated, their equipment is supplied by their foreign donors, their domestic staff becomes professionalized rather than volunteer and their level of production has expanded rapidly with the availability of funding. In this situation, however, it

is the policies of foreign governments and (religious) organizations that influence the institutional form, the amount and direction of activity within the private nonprofit sector. Hence we must look for international rather than national motivations and implications -- an issue discussed in my earlier paper. See E. James, "The Non-Profit Sector in International Perspective...," op. cit.

32. For a paper which emphasized the substitute relationship, see Burton Weisbrod, "Growth of the Nonprofit Sector," Discussion Paper #623-80, Institute for Research on Poverty, University of Wisconsin, 1981.

Table I. Size, Revenue Sources and Activities of the Swedish Nonprofit Sector Compared With Government, 1979 (in billion kroner)

| Activity | NPO Sector: Revenue Source: From State[a] | NPO Sector: From Local Government | NPO Sector: Private Revenues | NPO Sector: Total NPO | Direct Spending by Central Gov't.[a] | Direct Spending by Local Gov't.[b] |
|---|---|---|---|---|---|---|
| Education | 1.178 | .589[c] | .589[c] | 2.356 | 6.406 | 27.619 |
| Culture | .705 | .241[d] | .100[e] | 1.046 | .373 | 1.942 |
| Sports | .276 | .464[f] | .740[g] | 1.480 | .022 | 3.670 |
| Religion | .039 | NA | .930[h] | .969 | .010 | 3.271 |
| Other | .937 | NA | NA | .937 | 75.768 | 100.965 |
| Total | 3.135 | 1.294[i] | 2.359[i] | 6.788[i] | 82.579 | 137.467 |

[a] Data on central government subsidies to NPO's, direct expenditures by central government and central government transfers to local communities was assembled from material provided by the Riksrevisionsverket (National Audit Bureau), particularly Budget redovisning för 1979-80, which lists each appropriation in the 1979-80 budget; a computer printout which assigns to each appropriation a purpose and type of recipient; Statistiska meddelanden, 1981:7, pp. 36-7, which groups all state expenditures by major purpose and type of recipient; and Fördelningen av driftbudgetens utgiften efter ändamål, 1981, which groups all state expenditures by major and minor purposes and type of recipient. The nonprofit sector was defined to include "associations" and "other official institutions." See footnote 7 for comments on this definition and related data problems.

[b] Municipal, county and parish spending are included in this column. Data on local expenditures were taken from Kommunernas Finanser 1979, Statistiska Centralbyrån, Stockholm, 1981, pp. 16, 56, 57, 59, 64, 66, 90, 94, 95. From this was subtracted local transfers to NPO's, to obtain direct local spending. The following comments apply to the respective items: The distinction between central and local governmental expenditures on education is somewhat arbitrary; approximately half of the latter were covered by a transfer from the former, which also dictated how they should be spent. The distinction between sports and culture, too, was not always clear. Approximately 75% of expenditures on religion was derived from the "parish tax," collected by local government for the Church of Sweden. Since this is a state church financed by a special

[continued]

Table I [continued]:

church tax determined by each parish, I am considering it part of the local government sector rather than the NPO sector. The Free Churches are treated as NPO's, but data on local government contributions to them was not available. The "Other" category was, in the case of local government, primarily for welfare services, housing and various urban services, some of which were produced through semi-autonomous municipal companies and associations.

c
Numbers for local subsidies and private sources of income for education are based on annual financial reports of adult education associations and interviews with their officials, both of which indicated that about 25% of their revenues came from local governments, 25% from participant fees, sales of materials, interest and rent. Adult education is by far the largest NPO activity in the education category. Private primary and secondary schools probably get a higher proportion of their revenues from tuition fees and a lower proportion from municipalities, while the opposite is true for folk high schools.

d
See Kulturstatistik, published by Statens kulturråd och Statistiska centralbyrån, Stockholm, 1981, p. 107.

e
This is my estimate, based on budgetary data for cultural organizations in Kulturstatistik, op. cit., p. 123 and in Utbildningsdepartementet, Statsliggaren, 1980-81 (containing line-by-line expenditures for the Education Dept.), which suggested that private sources account for approximately 10% of total revenues for cultural institutions. Private for-profit sales of books, records and other cultural materials are not included in this table.

f
Fritidspolitik and Samhällstod, National Youth Board, Stockholm, 1981, p. 76.

g
According to Ibid., p. 68, sports organizations are 50% self-financing. This was confirmed by an interview with an official of the National Sports Federation. Lotteries are a major source of private funding; membership dues and admission fees are secondary sources.

h
This is my estimate of private revenues for Swedish Free Churches, based on the following information: According to my interview with church officials and perusal of their annual reports, there are approximately 300,000 Free Church members in Sweden, each of whom contributes an average of 3000 kroner. Also, the Svenska Missionforbundet, the largest Free Church organization in Sweden, had an income of 186 million kroner and approximately 20% of the Free Church membership and finances in the country. Both of these methods yield a total private revenue to the churches of 900-930 million kroner.

i
Because of the figures which were not available, these sums slightly understate the total revenues and expenditures of the Swedish nonprofit sector.

Table IIA

Male Enrollments at Lower Secondary Schools, 1910-1959

| Year | Higher Elementary & Local Realskolor[a] | State Secondary[b] | Private[c] | Total | % Increase | % Private | % Age Group 10-19 |
|---|---|---|---|---|---|---|---|
| 1910 | 868 | 15,760 | NA | 16,628 | | | |
| 1915 | 2,276 | 16,934 | 2,409 | 21,619 | 30 | 11 | |
| 1920 | 5,003 | 20,026 | 2,517 | 27,546 | 27 | 9 | 4.7 |
| 1925 | 7,250 | 19,639 | 2,243 | 29,132 | 6 | 8 | |
| 1930 | 6,139 | 19,040 | 2,156 | 27,335 | -6 | 8 | 4.9 |
| 1935 | 6,525 | 23,605 | 1,924 | 32,054 | 17 | 6 | |
| 1940 | 7,857 | 24,484 | 1,390 | 33,731 | 5 | 4 | 6.7 |
| 1945 | 8,392 | 27,824 | 2,166 | 38,382 | 14 | 6 | |
| 1950 | 7,289 | 41,087 | 2,557 | 50,933 | 33 | 5 | 11.6 |
| 1955 | 9,369 | 50,731 | 2,952 | 63,052 | 24 | 5 | |
| 1959 | 14,738 | 54,155 | 2,687 | 71,580 | 14 | 4 | 12.0 |

Source: Elever I Icke-Obligatoriska Skolor, 1864-1970 (Pupils in Secondary Schools in Sweden, 1864-1970), Central Bureau of Statistics, Stockholm, 1977.

[a]See pp. 112-114, 117, 119, 174.

[b]See pp. 121, 122, 174.

[c]See pp. 138, 139, 147, 148, 174. The first year for which this data is available is 1916. The number given for 1915 is actually from 1916.

Table IIB

Female Enrollments at Lower Secondary Schools, 1910-59

| Year | Higher Elementary & Local Realskolor[a] | State Secondary[b] | Municipal Girls' Schools[c] | Private[d] | Total | % Increase | % Private | % Age Group 10-19 |
|---|---|---|---|---|---|---|---|---|
| 1910 | 636 | 1,120 | | 12,359 | 14,115 | | 88 | |
| 1915 | 2,149 | 1,190 | | 15,370 | 18,709 | 33 | 82 | |
| 1920 | 5,731 | 1,557 | | 21,587 | 28,875 | 54 | 75 | 5.1 |
| 1925 | 8,602 | 1,507 | | 22,465 | 32,574 | 13 | 69 | |
| 1930 | 8,121 | 5,299 | 578 | 20,218 | 34,216 | 5 | 59 | 6.3 |
| 1935 | 9,044 | 11,794 | 4,958 | 12,855 | 38,651 | 13 | 33 | |
| 1940 | 10,717 | 13,749 | 12,273 | 4,400 | 41,139 | 6 | 11 | 8.5 |
| 1945 | 11,206 | 18,419 | 14,101 | 3,298 | 47,024 | 14 | 7 | |
| 1950 | 9,139 | 33,311 | 18,213 | 3,151 | 63,814 | 36 | 5 | 15.0 |
| 1955 | 12,231 | 43,759 | 22,399 | 3,772 | 82,161 | 29 | 5 | |
| 1959 | 17,775 | 50,994 | 23,257 | 3,408 | 95,434 | 16 | 4 | 16.6 |

Source: Same as Table IIA.

[a]See pp. 112-114, 117, 119, 174.

[b]See pp. 121, 123, 174.

[c]See p. 142.

[d]See pp. 138-140, 147, 148, 174.

Table IIIA

Male Enrollments at Upper Secondary Levels, 1910-1959

| Year | State Gymnasia[a] | Private[b] | Total | % Increase | % Private | % Age Group 10-19 |
|---|---|---|---|---|---|---|
| 1910 | 5,711 | NA | 5,711+ | | NA | |
| 1915 | 6,704 | 1,250 | 7,954 | 17 | 16 | |
| 1920 | 6,236 | 1,411 | 7,647 | -4 | 18 | 1.5 |
| 1925 | 7,840 | 1,639 | 9,479 | 24 | 17 | |
| 1930 | 6,229 | 1,554 | 7,783 | -18 | 20 | 1.6 |
| 1935 | 8,350 | 1,728 | 10,078 | 29 | 17 | |
| 1940 | 8,883 | 1,753 | 10,636 | 6 | 16 | 2.6 |
| 1945 | 9,017 | 1,810 | 10,827 | 2 | 17 | |
| 1950 | 9,801 | 1,854 | 11,655 | 8 | 16 | 3.6 |
| 1955 | 14,762 | 2,131 | 16,893 | 45 | 13 | |
| 1959 | 22,112 | 2,740 | 24,852 | 47 | 11 | 5.2 |

Source: Same as Table II.

[a]See pp. 128-31, 175.

[b]See pp. 147, 148, 175. 1916 is the first year this data is available. 1,250 is my approximation for 1915, based on an actual number of 1,291 for 1916.

Table IIIB

Female Enrollments at Upper Secondary Levels, 1910-1959

| Year | State Gymnasium[a] | Private[b] | Total | % Increase | % Private | % Age Group 10-19 |
|---|---|---|---|---|---|---|
| 1910 | 0 | 516 | 516 | | 100 | |
| 1915 | 0 | 1,014 | 1,014 | 97 | 100 | |
| 1920 | 11 | 1,193 | 1,204 | 19 | 99 | 0.2 |
| 1925 | 406 | 1,920 | 2,326 | 93 | 83 | |
| 1930 | 1,090 | 1,244 | 2,334 | 0.3 | 53 | 0.5 |
| 1935 | 3,154 | 1,303 | 4,457 | 91 | 29 | |
| 1940 | 4,523 | 1,221 | 5,744 | 29 | 21 | 1.3 |
| 1945 | 5,003 | 1,344 | 6,347 | 10 | 21 | |
| 1950 | 6,940 | 1,489 | 8,429 | 33 | 18 | 2.1 |
| 1955 | 11,943 | 1,938 | 13,881 | 65 | 14 | |
| 1959 | 19,959 | 2,602 | 22,561 | 63 | 12 | 4.3 |

Source: Same as Table II.

[a]See pp. 128, 130, 146, 175.

[b]See pp. 145, 146, 175. Data on girls' enrollment in private co-ed secondary schools is available starting in 1916. I have estimated this number to be 300 in 1915, based on actual number of 333 in 1916.

Table IV

Study Circles and Subsidies

| Year | # Subsidized Study Circles | Study Circle Hours | Participants* | Total State Subsidies (in m. kr.) |
|---|---|---|---|---|
| 1948 | 17,800 | | 221,000 | |
| 1957 | 62,400 | | 650,000 | |
| 1963 | 100,000 | 2,500,000 | 980,000 | 15 |
| 1967 | 130,000 | 3,355,000 | 1,260,000 | |
| 1973 | 244,000 | 7,020,000 | 2,327,000 | 215 |
| 1977 | 321,000 | 9,779,000 | 2,997,000 | 537 |
| 1979 | 334,000 | 10,814,000 | 3,036,000 | 768 |
| 1981 (exp.) | 300,000 | 9,600,000 | 2,700,000 | 782 |

Source: Interview with Sten Ljungdahl, National Board of Education, Stockholm, who quoted from past government documents; and Folkbildningsarbetet, Special Issue on Study Associations, June-July, 1976. The 15 million kroner figure for 1963 is my estimate, based on actual data for the Stockholm branch of ABF, which receives about 4% of the total subsidy.

*This number includes considerable double-counting since individuals who participate in two study circles are counted twice. The actual number of discrete participants is probably less than half this number.

Table V

Size, Revenue Source and Activities of the Dutch Nonprofit Sector Compared With Government, 1978 (in million guilder)

| Activity \ Revenue Source | NPO Sector: From State | Compulsory Insurance[a] | Local Gov't. | Private Revenues | Total NPO | Direct Gov't Spending[b] |
|---|---|---|---|---|---|---|
| Education[c] | 12,955 | | 1,012 | 1,000 | 14,967 | 9,407 |
| Health[d] | 915 | 9,467 | 315 | 2,051 | 12,748 | 2,800 |
| Culture and recreation[e] | 1,299 | | 984 | 400[g] | 2,683 | 2,549 |
| Social service[f] | 2,603 | — | 740 | NA | 3,340 | 1,810 |
| Old-age homes[h] | 64 | 2,563 | — | 127 | 2,754 | 145 |
| Religion[i] | 31 | — | — | 873 | 904 | — |
| Other | 2,101[j] | | | 494[k] | 2,595 | 56,789[m] |
| Total | 19,968 | 12,030 | 3,051 | 4,545 | 39,991[l] | 73,500[m] |

Notes and sources:

[a] Most of these were health insurance funds required by the government but operated by private companies. Hence they are, in a sense, guaranteed via state legislation, although paid for by personal premiums rather than general tax revenues.

[b] I have not distinguished between central and local government spending since, in the Netherlands, almost all funds are raised by central taxes. The central government then transfers much of the money to local government, some of it earmarked for activities such as education and social work, some of it in a block grant. Much of the spending in the areas listed in the table is nominally done by the local governments while most of the "other" spending is nominally done by the central government. However, the division is, in part, arbitrary. For example, teacher salaries are paid directly by the state and hence are often considered central expenditures, although the public schools are considered a municipal responsibility. Other educational expenditures are usually considered local expenditures, although the municipalities are reimbursed by the state for most of them. For this reason, I did not think it useful to distinguish between direct state and local spending in this table.

[continued]

Table V (continued)

c
Derived from Pocketbook of Educational Statistics, Central Bureau of Statistics, The Hague, 1981, p. 86. I assumed that local expenditures were divided between public and private schools in the same proportion as total expenditures and that 1/3 of university expenditures were in the private sector (both of these assumptions consistent with the public-private division of enrollments). Private sources of funds to private schools are not officially available. On the basis of discussions with informed consultants I guesstimated these to be an average of 500 guilders per student for 2 million students, a total of 1 billion guilders. The actual figures are lower at the primary level, higher at the vocational and university levels. Public schools are not permitted to charge fees during the years of compulsory schooling, ages 6-16.

d
Derived from Kosten en financiering van de gezondheidzorg in nederland, Ministry of Health, The Hague, 1978, pp. 42-44. This gave sources of revenue to all health institutions. To obtain the share accruing to private health institutions, I multiplied the totals by .82 -- the proportion of total patient days spent in private rather than public hospitals, according to Health Statistics in Netherlands, Central Bureau of Statistics, The Hague, 1979, p. 374. Included in the resources of government institutions are 452 million guilders from private sources, such as fees paid by households. Fees received by individual practitioners, and paid by health insurance or households, totalled another 6,782 million guilders, and are not included in this table. These are regarded as part of the private for-profit sector.

e
Derived from Statistiek inkomsten en uitgaven van de overheid voor cultuur in recreatie, Central Bureau of Statistics, The Hague, 1976, pp. 45, 51, 53. This gave the 1976 breakdowns of government expenditures to public and private cultural and recreational institutions. To obtain 1978 figures I multiplied 1976 data by 1.25, taking account of the increase in government expenditures on culture, recreation and social work between these two years, according to The Netherlands Budget Memorandum, Ministry of Finance, The Hague, 1981, p. 112.

f
Derived from Statistiek inkomsten en uitgaven van de overheid voor maatschappelyk welzijn, Central Bureau of Statistics, The Hague, 1976, pp. 43, 51, 61. This gave the 1976 breakdowns of government expenditures to public and private social service organizations. To obtain 1978 figures I multiplied 1976 data by 1.25, taking account of the increase in government expenditures on culture, recreation and social work between these two years, according to The Netherlands Budget Memorandum, Ibid.

g
Data on contributions, fees, and other private sources of income to nonprofit organizations are generally not available. My estimate of 400 million guilders is based on the fact that state and local governments derived approximately 15% of their expenditures on culture and recreation from various rents, charges, and donations according to Statistiek van de Uitgaven der Overheid voor cultuur en recreatie, Central Bureau of Statistics, The Hague, 1974, pp. 10-55.

[continued]

Table V (continued)

[h] Derived from Statistiek van de bejaardenoorden, Central Bureau of Statistics, The Hague, 1977, pp. 14, 54, 55. I have increased the 1977 figures given there by 15% to get an approximation for 1978. The sum listed under "compulsory insurance" is a slight overstatement, since it includes all charges for nursing care and care of the elderly. While most of this was paid by social and health insurance funds, a small part was paid directly by high-income people. This breakdown between public and private sources of funds was not available. Another 93 million guilders was spent by private profit-making old-age homes.

[i] Derived from Financiele gegevens kerkgenoolschappen, Central Bureau of Statistics, The Hague, 1970-76, p. 18. Data given for 1976 was increased by 15%, the rate at which church revenues increased from 1972-74 and 1974-76, to arrive at a guestimate for 1978.

[j] Derived from Statistiek der rijksfinancien, Central Bureau of Statistics, The Hague, 1971-77, pp. 25, 48, 50, 51. Data given for 1977 was increased by 15%, to take account of increases in government expenditures between 1977 and 1978.

[k] These are voluntary contributions, as reported in Distribution of Personal Income, Part II, Central Bureau of Statstics, The Hague, 1975, p. 205. Since this information came from tax forms, it omits small gifts, i.e., those which are less than 1% of gross income and are therefore not tax-deductible. Thus, the number I give understates total donations. Many of the smaller contributions, however, went to churches and were therefore already counted as part of church finance. To the extent that some of these large contributions also went to churches, we have some double-counting which (partially) offsets the omission of small contributions. Data given for 1975 was increased by 25% to arrive at guestimate for 1978.

[l] Because some data was not available, this figure slightly understates the size of the Dutch nonprofit sector.

[m] See The Netherlands Budget Memorandum, op. cit., p. 21, which gives total spending of public funds by central government, local government and NPO's, combined, a total of 96.5 billion guilders. From this I subtracted the 23 billion guilders of state and local funds which were spent by NPO's to obtain the total direct spending by government. "Other" spending by government was derived by subtracting the expenditures on education, health, etc., from this total.

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